

## Message Text

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ACTION EUR-12

INFO OCT-01 NEA-09 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

SIL-01 SAM-01 /103 W

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R 261902Z MAR 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8554

INFO ALL EC CAPITALS 481

AMEMBASSY ALGIERS

AMEMBASSY CAIRO

AMEMBASSY RABAT

AMEMBASSY TEL AVIV

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, MED, EEC

SUBJECT: LONG-TERM AGRICULTURAL CONTRACTS

REF: A) EC BRUSSELS 1719

B) EC BRUSSELS A-098

C) EC BRUSSELS 9081 (1974)

1. SUMMARY: AS REPORTED IN REFTEL A, ONE NEW ELEMENT OF THE CAP STOCKTAKING INVOLVED THE POSSIBILITY OF LONG-TERM CONTRACTS FOR THE SALE OF AGRICULTUREAL PRODUCTS TO MEDITERRANEAN COUNTRIES. WE UNDERSTAND ISRAEL, ALGERIA, MOCOCCO AND EGYPT HAVE RAISED THE POSSIBILITY WITH THE COMMISSION AND THAT THE AGRICULTURAL AND DEVELOPMENT  
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COOPERATION DIRECTORATES-GENERAL HAVE IT UNDER CON-

SIDERATION. LARDINOIS DISCUSSED THE SUBJECT DURING HIS VISIT TO ISRAEL AND WILL DO SO WHEN HE GOES TO ALGERIA AND EGYPT SHORTLY. END SUMMARY.

2. RECENT COMMISSION POLICY STATEMENTS HAVE CONTAINED REFERENCES TO THE CONCEPT OF LONG-TERM AGRICULTURAL CONTRACTS BETWEEN THE EC AND CERTAIN MEDITERRANEAN COUNTRIES. IN PARTICULAR THE OUTLINES OF SUCH AN ARRANGEMENT WERE DESCRIBED IN THE RECENT CAP INVENTORY PAPER (REFS A AND B). LARDINOIS DISCUSSED THE SUBJECT DURING HIS RECENT VISIT TO ISRAEL AND WILL DO SO DURING HIS UPCOMING VISITS TO ALGERIA (MARCH 27-28) AND EGYPT THEREAFTER IN APRIL. WE WERE RELIABLY INFORMED THAT THE MEDITERRANEAN COUNTRIES THEMSELVES INITIATED THE IDEA OF SUCH CONTRACTS WITH THE COMMISSION, AND THAT THE COMMISSION SUBSEQUENTLY INCORPORATED THE CONCEPT IN THEIR RECENT POLICY STATEMENTS. WE UNDERSTAND THAT EC COMMISSIONER FOR DEVELOPMENT COOPERATION CYEYSSON IS ALSO TAKING AN ACTIVE AND POSITIVE INTEREST IN THE PROPOSAL AS AN INSTRUMENT OF DEVELOPMENT POLICY TO STRENGTHEN THE LINKS BETWEEN THE EC AND THE SOUTHERN TIER OF THE MEDITERRANEAN.

3. AS LARDINOIS EXPLAINED TO AMBASSADOR GREENWALD DURING A LUNCHEON GIVEN FOR ASSISTANT SECRETARY OF AGRICULTURE YEUTTER ON MARCH 25, THE COMMISSION HAS IN MIND NEGOTIATING LONG-TERM (5-7 YEAR) FRAMEWORK AGREEMENTS ON AGRICULTURAL PRODUCTS WHICH WOULD GUARANTEE AN AGREED QUANTITY OF EXPORTS AT THE EC PRICE. IT IS NOT CLEAR WHETHER THE "EC PRICE" REFERS TO THE INTERNAL EC PRICE OR THE EC EXPORT PRICE, WHICH WOULD INVOLVE EC EXPORT SUBSIDIES WHEN THE EC INTERNAL PRICE IS HIGHER THAN WORLD MARKET PRICES. (OUR IMPRESSION IS THT THE COMMISSION HAS NOT MADE UP ITS MIND ON THIS POINT.) IN ANY CASE, ONCE A PURCHASER HAS ENTERED INTO AN AGREEMENT, THE IDEA WOULD SEEM TO BE THAT THE PURCHASER WOULD BE EXPECTED TO MAKE A COMMITMENT TO TAKE THE PRODUCTS. SOFT WHEAT, SKIM MILK POWDER AND SUGAR WOULD BE THE MAIN PRODUCTS INVOLVED. THE MOST PROMISING CUSTOMERS WOULD LIMITED OFFICIAL USE

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BE MEDITERRANEAN COUNTRIES WITH STATE TRADING OPERATIONS--ISRAEL, ALGERIA AND EGYPT. (WE UNDERSTAND FROM OTHER COMMISSION SOURCES THAT BUTTER IS ANOTHER POSSIBILITY, AND THAT MOROCCO IS ALSO INTERESTED IN SUCH LONG-TERM CONTRACTS (SEE REF C). LARDINOIS SEEMED TO EXCLUDE COUNTRIES WITHOUT CENTRAL PURCHASING BODIES ON THE GROUND THAT NORMAL, PRIVATE TRADE SHOULD BE ALLOWED TO FUNCTION.

4. WHILE THE COMMISSION MIGHT HAVE SOME STOCKS OF THESE PRODUCTS, THE TRADE WOULD BE CARRIED OUT THROUGH PRIVATE CHANNELS ON THE EC SIDE, UNDER A FRAMEWORK AGREEMENT WHICH WOULD PROVIDE A GUARANTEE OF LONG-TERM ACCESS TO THE EC MARKET FOR THE AGREED QUANTITY WITHOUT FEAR OF EXPORT CONTROLS IN RESPONSE TO A QUESTION ABOUT A SITUATION IN WHICH THE PRODUCTS CONTRACTED FOR WERE NOT PHYSICALLY AVAILABLE IN THE EC, LARDINOIS SAID THIS WAS A MARGINAL RISK BECAUSE THE PRODUCTION AND CONSUMPTION OF THE THREE KEY COMMODITIES IS FAIRLY PREDICTABLE IN EUROPE.

5. IN EXPLAINING THE RATIONALE OF THE EC APPROACH, LARDINOIS CITED EGYPT AS AN EXAMPLE. AN ASSURANCE OF SECURE SUPPLY OF WHEAT WOULD ALLOW EGYPT TO CONCENTRATE ON THE PRODUCTION OF COTTON.

6. COMMISSION SOURCES HAVE EMPHASIZED TO US THE PRELIMINARY NATURE OF THEIR CONSIDERATION OF THIS PROPOSAL. THEY ALSO NOTE THAT SUCH LONG-TERM CONTRACTS ARE VIEWED AS DISTINCT FROM BUT COMPLEMENTARY TO THE CURRENT MEDITERRANEAN NEGOTIATIONS. THE MED COUNTRIES HAVE SUGGESTED INCLUDING THEM IN THE CURRENT MED NEGOTIATIONS BUT PROCEDURALLY, GIVEN THE APPROACHING CONCLUSION OF ACCORDS, ANY LONG-TERM FRAMEWORK AGREEMENTS WOULD BE NEGOTIATED SEPARATELY. FROM OTHER COMMENTS MADE BY LARDINOIS DURING THE YEUTTER VISIT, IT IS CLEAR THAT HE ALSO SEES A CLOSE CONCEPTUAL RELATIONSHIP BETWEEN LONG-TERM AGREEMENTS (ON SOFT WHEAT, SKIM MILK POWDER AND SUGAR), COMMUNITY STOCKPILING POLICY AND COMMODITY AGREEMENTS TO BE NEGOTIATED IN THE MTN LIMITED OFFICIAL USE

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